MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BSM3114– MANAGEMENT OF STRATEGY

(ALL SECTIONS)

23 OCTOBER 2017
9.00 a.m– 11.00 a.m
(2 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 5 pages.
2. There are **TWO (2) Case Studies**. Attempt **ALL** questions.
3. Please write all your answers in **Answer Booklet** provided.

CASE STUDY 1: 50 MARKS

A PARTNERSHIP WITH A COOPERATIVE TWIST: MICROSOFT AND YAHOO.

Google currently has 65% of the market whereas Yahoo has almost 20% and Microsoft at a distant third has less than 10%. The managing editor for CRN Magazine considers this an absolute steal for Microsoft in that Yahoo wins the ability to stay an independent company with a huge new friend. Reporters say consumers won't notice changes right away but the partnership will benefit consumers over the long run because it doesn't hurt to have a very strong #2 in search. With consumers receptive to the move, analysts said it will boost Bing's exposure to Yahoo's audience giving Microsoft its desire for a greater share of Internet advertising. Yahoo is reserving the right to retain control of the user interface that will control the look and feel of how the search results will be presented but the technology is all done by Microsoft.
Here is the letter from the Microsoft CEO:

Dear Members of the Board,

I am writing on behalf of the Board of Directors of Microsoft to make a proposal for a business combination of Microsoft and Yahoo!. Under our proposal, Microsoft would acquire all of the outstanding shares of Yahoo! common stock for per share consideration of $31 based on Microsoft's closing share price on January 31, 2008, payable in the form of $31 in cash or 0.9509 of a share of Microsoft common stock. Microsoft would provide each Yahoo! shareholder with the ability to choose whether to receive the consideration in cash or Microsoft common stock, subject to pro-ration so that in the aggregate one-half of the Yahoo! common shares will be exchanged for shares of Microsoft common stock and one-half of the Yahoo! common shares will be converted into the right to receive cash. Our proposal is not subject to any financing condition.

Microsoft's consistent belief has been that the combination of Microsoft and Yahoo! clearly represents the best way to deliver maximum value to our respective shareholders, as well as create a more efficient and competitive company that would provide greater value and service to our customers. In late 2006 and early 2007, we jointly explored a broad range of ways in which our two companies might work together.

In February 2007, I received a letter from your Chairman indicating the view of the Yahoo! Board that "now is not the right time from the perspective of our shareholders to enter into discussions regarding an acquisition transaction." According to that letter, the principal reason for this view was the Yahoo! Board's confidence in the "potential upside" if management successfully executed on a reformulated strategy based on certain operational initiatives, such as Project Panama, and a significant organizational realignment. A year has gone by, and the competitive situation has not improved.

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While online advertising growth continues, there are significant benefits of scale in advertising platform economics, in capital costs for search index build-out, and in research and development, making this a time of industry consolidation and convergence. Today, the market is increasingly dominated by one player who is consolidating its dominance through acquisition. Together, Microsoft and Yahoo! can offer a credible alternative for consumers, advertisers, and publishers. Synergies of this combination fall into four areas:

Scale economics: This combination enables synergies related to scale economics of the advertising platform where today there is only one competitor at scale. This includes synergies across both search and non-search related advertising that will strengthen the value proposition to both advertisers and publishers. Additionally, the combination allows us to consolidate capital spending.

Expanded R&D capacity: The combined talent of our engineering resources can be focused on R&D priorities such as a single search index and single advertising platform. Together we can unleash new levels of innovation, delivering enhanced user experiences, breakthroughs in search, and new advertising platform capabilities. Many of these breakthroughs are a function of an engineering scale that today neither of our companies has on its own.

Operational efficiencies: Eliminating redundant infrastructure and duplicative operating costs will improve the financial performance of the combined entity. Emerging user experiences: Our combined ability to focus engineering resources that drive innovation in emerging scenarios such as video, mobile services, online commerce, social media, and social platforms is greatly enhanced.

We would value the opportunity to further discuss with you how to optimize the integration of our respective businesses to create a leading global technology company with exceptional display and search advertising capabilities. You should also be aware that we intend to offer significant retention packages to your engineers, key leaders and employees across all disciplines.

We have dedicated considerable time and resources to an analysis of a potential transaction and are confident that the combination will receive all necessary regulatory approvals. We look forward to discussing this with you, and both our internal legal team and outside counsel are available to meet with your counsel at their earliest convenience. We believe this proposal represents a unique opportunity to create significant value for Yahoo!'s shareholders and employees, and the combined company will be better positioned to provide an enhanced value proposition to users and advertisers. We hope that you and your Board share our enthusiasm, and we look forward to a prompt and favorable reply.

Sincerely yours,

/s/ Steven A. Ballmer

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a. What kind of strategic alliance has occurred with Microsoft and Yahoo? Explain your answer. For what reasons do you think they developed such an alliance?

(25 Marks)

b. Now that Microsoft and Yahoo have partnered, what business-level cooperative strategies and corporate-level cooperative strategies do you think we can expect from them? Why?

(25 Marks)

(TOTAL : 50 MARKS)

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CASE STUDY 2: 50 MARKS

ORGANIZATIONAL CULTURE CREATES STRATEGIC COMPETITIVENESS: TONY SHAY/CEO/Zappos.com

Opening with a bald and blue day where employees, even the boss, can either shave their head or dye it blue is just part of the wacky world of Zappos.com. As an online shoe retailer where business is unusual, it is thriving among struggling retailers. Derived from the Spanish word for shoes, *zapatos*, Zappos is out in front with a unique company culture and their 36-year-old CEO, Tony Shay. Zappos believes that everyone is a little weird somehow. Shay says it's a fun way to say that we want people's true personality to shine in the workplace. Shay believes he has learned how to create both passion and profits, which is outlined in the book, *Delivering Happiness*. He insists, in the book, that it is possible to make employees happy, customers happy, investors happy, and still make profit. Zappos has been so successful that Amazon was willing to purchase it for $1.2 billion.

Never imagining himself in the shoe industry, Tony Shay works out of a cubicle and earns less than $37,000 dollars a year as CEO. He recognized that selling shoes on the Internet was a particular challenge—overcoming the need to try on shoes before buying. With free shipping and free returns for up to a year, Zappos overcame the challenge when other retailers were cutting costs and outsourcing call centers overseas. The Zappos call center is located in Las Vegas where operators are members of the customer loyalty team. Shay indicates that every phone call to the call center is a branding opportunity with no planned scripts and no time limits to follow. Every operator is given the opportunity to do whatever it takes to make a customer happy, which was indicated through mock call ins, operator videotapes, and interviews with operators.

While making customers happy, Shay wants his 1400 employees to be happy as well. He wants employees to not think of their job as work but a place they want to be for life. Zappos provides full medical insurance, free meals, and opportunities for a variety of breaks throughout the company. Interviews with warehouse shoe pickers indicate that working for Zappos is work but is more rewarding than just a job. Zappos is so determined to keep dedicated workers that it tests their loyalty by offering them money to quit. The sense of security and company benefits means more than the salaries, which are on par with Zappos competitors.

The executive editor for *Fortune* magazine believes employees feel empowered at Zappos. Having been listed in *Fortune* magazine's 100 best companies to work for over the past two years, the editor believes the employees feel respected and have the ability to make decisions on their own. Though successful, *Fortune* wonders if Zappos is getting the full range of perspectives, particularly from customers, if everybody is so cheerful. Tony Shay hopes that other companies can follow the Zappos example of making the world a better place

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a. What resources and resulting capabilities and core competencies do you see within the Zappos organization that gives it strategic competitiveness and how Zappo's creating value through its culture?

(25 Marks)

b. Will Zappos'competitive advantage be sustainable? What value chain activities performed by Zappos help to create value for its customers?

(25 Marks)

(TOTAL : 50 MARKS)

End of paper